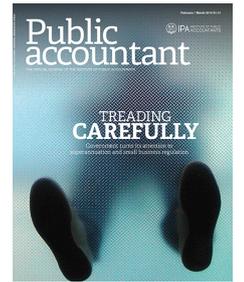




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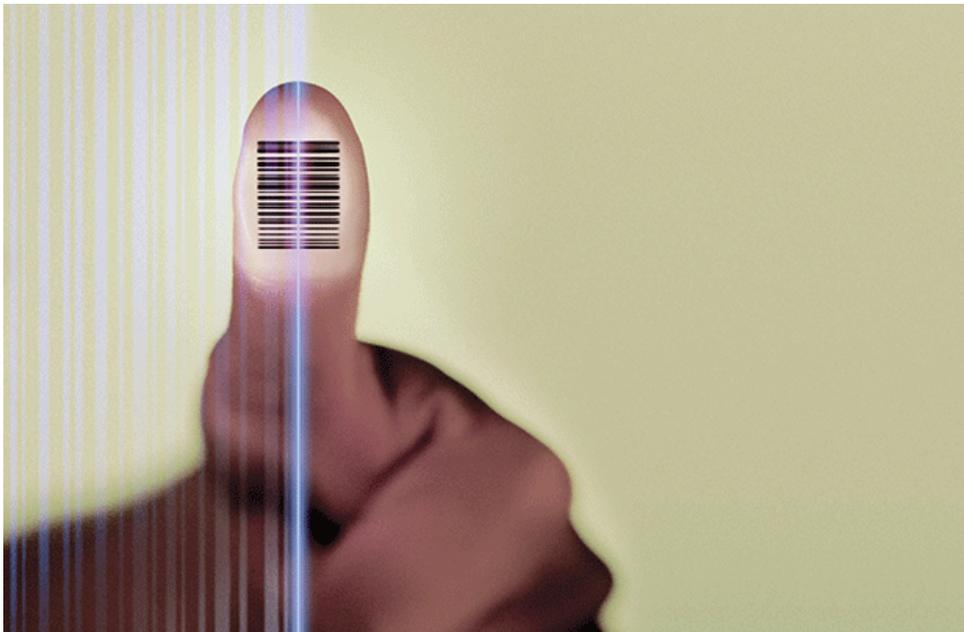
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## When the price is right

September 27th, 2013

When it comes to establishing a fair price for your services, it should be more about value for money, say the pricing experts. - By Nina Hendy




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Setting a price for service is a challenging process for accountancy firms. How do you compare with your many rivals? What criteria do you use to measure the cost of your service? How can you compete with the increasing number of offshore companies offering cheaper compliance work?

Determining the best pricing strategy can make or break an accountancy practice. And it's a process, say the experts, that these days requires not only careful consideration but also a greater degree of sophistication.

### Pricing systems that don't work

The most common approach among accounting firms is to simply set prices according to what competitors charge. But Jon Manning, founder and managing director of Sydney pricing firm PricingProphets, notes that this system doesn't always compare apples with apples.

Some firms charge what they believe the consumer will pay, while others set their prices based on an hourly rate. Both these approaches, say the pricing experts, are also misguided.

Pricing strategist Ron Wood, of Sydney's Pricing Insight, says no accountant should ever set prices based on what it costs them to provide their service.

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“This is a challenge, as the entire accounting profession is built on cost identification, mapping and analysis of cost,” says Wood. “This piece of advice throws accountants, as the natural reaction is to want to use their input costs to establish value to customers.”

In today’s globalised world, he points out, accountants are competing against bookkeeping services available online for \$5 an hour from overseas sites like Freelancer or oDesk.

Manning agrees that accounting firms need to think beyond time-based pricing. This approach, he says, can create the impression that the firm is acting in its own interests rather than the client’s interests. And clients who receive a time-based bill whenever they call for advice or a report may feel inhibited about reaching out for help.

Charging for your time also leaves money on the table. Wood estimates more than four-fifths of Australian companies are giving up on average between 15 per cent and 100 per cent improvements on profit by simply charging for their time.

**Understanding your value**

Manning says the key is to understand what your firm’s expertise does for clients – then charge accordingly. Explaining what your work will do to help your client’s business is paramount in creating value. What you see as simple may well be an enormous load off your client’s shoulders.

“Accountants and their clients need to understand that they [accountants] are not an expense but part of a value-creation process,” says Manning.

Wood agrees. Being able to identify clearly the value that the accountancy firm offers clients – by working out how they can help clients increase their revenue or margins, reduce their cost of doing business and reduce potential risk to their earnings – will help a firm work out a price, he says.

Since different clients will value services differently, Manning recommends providing service choices – such as a small, medium or large alternative – each at different price points. And Wood and Manning suggest being transparent about your pricing structure so that the client knows up-front what your service costs will be.

The fee-for-service model is a fixed guarantee or estimate, allowing the buyer to make an informed decision about cost. “The fee puts the risk on the seller to make the delivery of the service happen within an expected timeframe,” says Wood.

“The other aspect is to target the right market segments. Not everyone can pay your value or understands your value.”

It’s also important to account for technology when considering the value of your service. Your investment in technology could save clients significant dollars in not having to invest in the necessary software, training and time themselves.

And make sure you build a contingency component into your pricing structure for clients who may need extra reports, advice or phone conversations.

**The need for action**

Accounting firms should reassess pricing strategies sooner rather than later, with major changes for professional service firms predicted for the near future.

Wood says that, while many lawyers complain that they can’t establish fees as their work could go on for many weeks or months, this mindset will change as customers begin to demand accountability and want to pay for an outcome.

“Eventually, all services will be a fixed fee, with scope for variations as required or some additional fee contingency that is linked not to hours but to outcomes,” says Wood.

Manning adds that it’s vital to be transparent during price hikes. “Always make sure you explain why you are increasing your prices – and don’t blame it on costs,” he says. “Clients don’t care what it costs you to run your Audi or rent your office. They care about the value they receive.”

Nina Hendy

Tags: Accounting , Magazine Oct/Nov 2013 , pricing strategy



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